

**NORTHWEST KANSAS GROUNDWATER
MANAGEMENT DISTRICT NO. 4**

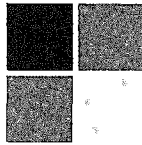
Primary Government Financial Statements
With Independent Auditors' Report

For the Year Ended December 31, 2012

NORTHWEST KANSAS GROUNDWATER MANAGEMENT DISTRICT NO. 4
Primary Government Financial Statements With Independent Auditors' Report
For the Year Ended December 31, 2012

TABLE OF CONTENTS

Independent Auditors' Report	1
Summary Statement of Receipts, Expenditures and Unencumbered Cash – Regulatory Basis	3
Notes to Financial Statement	4
 Regulatory–Required Supplementary Information	
Schedule 1 – Summary of Expenditures – Actual and Budget – Regulatory Basis.....	10
Schedule 2 – Schedule of Receipts and Expenditures – Regulatory Basis Individually presented by fund	
 Governmental Type Funds	
General Fund	
2-1 General Fund	11



Certified
Public
Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors

Northwest Kansas Groundwater Management District No. 4

Colby, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of **Northwest Kansas Groundwater Management District No. 4**, as of and for the year ended December 31, 2012 and the related notes to the financial statement.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the *Kansas Municipal Audit and Accounting Guide* as described in Note 1 to meet the financial reporting requirements of the State of Kansas. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit and Accounting Guide*. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the District to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide*, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Northwest Kansas Groundwater Management District No. 4

Page 2

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of December 31, 2012, or changes in financial position and cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the District as of December 31, 2012, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide* described in Note 1.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of regulatory basis expenditures – actual and budget and the individual fund schedule of regulatory basis receipts and expenditures – actual and budget, (Schedules 1 and 2 as listed in the table of contents) are presented for analysis and are not a required part of the basic financial statement; however, are required to be presented under the provisions of the *Kansas Municipal Audit and Accounting Guide*. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole, on the basis of accounting described in Note 1.



ADAMS, BROWN, BERAN & BALL, CHTD.

Certified Public Accountants

February 20, 2013

NORTHWEST KANSAS GROUNDWATER MANAGEMENT DISTRICT NO. 4
 Summary Statement of Receipts, Expenditures and Unencumbered Cash
 Regulatory Basis
 For the Year Ended December 31, 2012

Funds		Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Encumbrances and Accounts Payable	Ending Cash Balance
Governmental Type Funds								
General Fund								
General Fund		\$ 145,409	-	493,281	489,927	148,763	4,088	152,851
		Composition of Cash						
		Checking Accounts						\$ 13,058
		Money Market Account						139,793
		Total Reporting Entity						\$ 152,851

The notes to the financial statement are an integral part of this statement.

NORTHWEST KANSAS GROUNDWATER MANAGEMENT DISTRICT NO. 4

Notes to Financial Statements

December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Northwest Kansas Groundwater Management District No. 4 has established a uniform system of accounting maintained to reflect compliance with the applicable laws of the State of Kansas. The accompanying financial statements are presented to conform to the cash basis and budget laws of the State of Kansas, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

Use of Estimates

The preparation of financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas requires management to make estimates and assumptions that affect the reported amount of unencumbered cash balances and accounts payable during the reporting period. Actual results could differ from these estimates.

Financial Reporting Entity

The District is a municipal corporation governed by an elected eleven-member board. This financial statement does not include the related municipal entity shown below. A related municipal entity is an entity established to benefit the District and/or its constituents.

Northwest Kansas Groundwater Conservation Foundation

The Foundation receives donations from the public and other funds from the District to assist in the acquisition of groundwater rights. Acquisition or disposition of real property by the Board must be approved by the District. Bond issuances must also be approved by the District. The Board is comprised of the same board members on the District's board. The District substantially funds the Foundation's operations by appropriating funds from its general operating budget and transferring them to the foundation to meet its purpose of acquiring groundwater rights. For a copy of the unaudited financial statements, please contact the District office.

The District is the primary government as defined in GASB #61. The District's board is elected by the public. The board has the authority to make decisions, levy water user charges and land assessments, influence operations and has the primary accountability in fiscal matters.

Basis of Presentation – Fund Accounting

The accounts of the District are organized and operated on the basis of funds. In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The following categories of funds comprise the financial activities of the District for the year ended December 31, 2012.

Regulatory Basis Fund Type

General Fund – the chief operating fund. Used to account for all resources except those required to be accounted for in another fund.

Basis of Accounting

The KMAAG regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered

NORTHWEST KANSAS GROUNDWATER MANAGEMENT DISTRICT NO. 4

Notes to Financial Statements

December 31, 2012

cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis revenues and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The District has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the District to use the regulatory basis of accounting.

Departure From Accounting Principles Generally Accepted in the United States of America

The basis of accounting described above results in a financial statement presentation which shows cash receipts, expenditures, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expenses, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the District are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, and temporary notes are not presented in the financial statements.

Property Tax Calendar

Collection of current year property tax by the County Treasurer is not completed, apportioned nor distributed to the various subdivisions until the succeeding year, such procedure being in conformity with governing state statutes. Property taxes are collected and remitted to the County Treasurer. Taxes levied annually on November 1st are due one-half by December 20th and one-half by May 10th. Major tax distributions are made in the months of December through July. Lien dates for personal property are in March and August and lien dates for real property are in September. Taxes are recognized as revenue in the year received. Delinquent tax payments are recognized as revenue in the year received.

Restricted Assets

Restricted cash balances are reported in various funds that are legally restricted for specified uses such as the payment of debt service and fiscal fees on long-term debt and for expenditures approved in federal and state grant contracts.

Reimbursements

The District records reimbursable expenditures (or expenses) in the fund that makes the disbursement and records reimbursements as revenue to the fund. For purposes of budgetary comparison, the expenditures (or expenses) are properly offset by the reimbursements.

NOTE 2 – BUDGETARY INFORMATION

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special purpose funds (unless specifically exempted by statute), bond and interest funds, and business funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in

NORTHWEST KANSAS GROUNDWATER MANAGEMENT DISTRICT NO. 4

Notes to Financial Statements

December 31, 2012

the adoption of the legal annual operating budget:

- a. Preparation of the budget for the succeeding calendar year on or before August 1st.
- b. Publication in local newspaper on or before August 5th of the proposed budget and notice of public hearing on the budget.
- c. Public hearing on or before August 15th, but at least 10 days after publication of notice of hearing.
- d. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least 10 days after publication, the hearing may be held and the governing body may amend the budget at that time. There were two budget amendments for this year for the General Fund.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison schedules are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the regulatory basis of accounting, in which revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the District for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year end.

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

NOTE 3 – DEPOSITS AND INVESTMENTS

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and K.S.A. 9-1405.

NORTHWEST KANSAS GROUNDWATER MANAGEMENT DISTRICT NO. 4

Notes to Financial Statements

December 31, 2012

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas District, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The District does not use "peak periods". All deposits were legally secured at December 31, 2012.

At December 31, 2012, the District's carrying amount of deposits was \$152,851 and the bank balance was \$159,691. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, all was covered by federal depository insurance.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured. The District had no investments at December 31, 2012.

NOTE 4 – LITIGATION

Northwest Kansas Groundwater Management District No. 4 is a party to various legal proceedings which normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the affected funds of the District.

NOTE 5 – RISK MANAGEMENT

Northwest Kansas Groundwater Management District No. 4 carries commercial insurance for risks of loss, including property, general liability, inland marine, automobile, and employee dishonesty. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 6 – OPERATING LEASES

On January 29, 2009, **Northwest Kansas Groundwater Management District No. 4** entered into a lease agreement with Charles Schwanke and Vernon Schwanke to lease office space. The agreement calls for monthly payments of \$1,000 for 12 months plus an adjusted flat utility rate for electricity and gas based on the 2011 actual usage. Payments totaling \$12,000 were made in 2012. Future scheduled payments for 2013 total \$12,000.

The District entered into a lease agreement for a postage meter with Pitney Bowes Global Financial Services, LLC on April 19, 2008. The lease agreement is payable in quarterly payments of \$135 for 54 months or 16 payments. Payments of \$540 were made in 2012. Future scheduled payments to maturity are as follows:

Year	Amount
2013	\$ 540
2014	540
2015	540
2016	135

NORTHWEST KANSAS GROUNDWATER MANAGEMENT DISTRICT NO. 4

Notes to Financial Statements

December 31, 2012

NOTE 7 – DEFINED BENEFIT PENSION PLAN

Plan Description

The District participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing, multiple-employer defined benefit pension plan as provided by Kansas law. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S Kansas, Suite 100; Topeka, KS 66603) or by calling 1-888-275-5737.

Funding Policy

K.S.A. 74-419 and K.S.A. 74-49,210 establish the KPERS member-employee contribution rates. Effective July 1, 2009 KPERS has two benefit structures and funding depends on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member-employee contribution rate at 4% of covered salary for Tier 1 members and at 6% of covered salary for Tier 2 members. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. Kansas law provides that employer contribution rates be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in the employer contribution rates.

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS

As provided by K.S.A. 12-5040, **Northwest Kansas Groundwater Management District No. 4** allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the District is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these financial statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the District makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured.

NOTE 9 – COMPENSATED ABSENCES

Vacation

Northwest Kansas Groundwater Management District No. 4's policy regarding vacation for full-time employees is as follows:

<u>Years Worked</u>	<u>Amount Earned</u>
0-2	1.00 day/month
2-5	1.25 days/month
5-10	1.50 days/month
10 and over	1.75 days/month

The maximum accrual for vacation shall be no more than 18 days for full-time employees. Upon termination of employment under any circumstances, the employee will be reimbursed for any unused vacation at the employee's pay scale at the time of termination. As of December 31, 2012 the vacation balance was \$16,891.

NORTHWEST KANSAS GROUNDWATER MANAGEMENT DISTRICT NO. 4

Notes to Financial Statements

December 31, 2012

Sick Leave

The District's policy for sick leave permits a full-time employee to earn sick leave at the rate of one day per calendar month worked, with no accumulation limit. Sick leave is not paid upon termination of employment. As of December 31, 2012 the sick leave balance was \$265,175.

Discretionary Leave

Two days of discretionary leave is earned per calendar year.

NORTHWEST KANSAS GROUNDWATER MANAGEMENT DISTRICT NO. 4

Regulatory-Required Supplementary Information

NORTHWEST KANSAS GROUNDWATER MANAGEMENT DISTRICT NO. 4
 Summary of Expenditures - Actual and Budget
 Regulatory Basis
 For the Year Ended December 31, 2012

Fund	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance Over (Under)
Governmental Type Fund					
General Fund					
General Fund	\$ 636,180	-	636,180	489,927	(146,253)

NORTHWEST KANSAS GROUNDWATER MANAGEMENT DISTRICT NO. 4

General Fund

Schedule of Receipts and Expenditures - Actual and Budget

Regulatory Basis

For the Year Ended December 31, 2012

(With Comparative Actual Totals for the Prior Year Ended December 31, 2011)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
County Assessments	\$ 571,114	492,872	490,770	2,102
Interest Income	286	409	-	409
Total Cash Receipts	<u>571,400</u>	<u>493,281</u>	<u>490,770</u>	<u>2,511</u>
Expenditures				
Postage	6,166	5,401	5,600	(199)
Printing	5,192	5,818	4,700	1,118
Dues	1,530	1,500	2,500	(1,000)
Subscriptions	2,580	2,695	1,500	1,195
Insurance	13,673	10,842	7,500	3,342
Telephone	6,404	6,437	6,500	(63)
Salaries and Benefits	290,172	314,597	302,550	12,047
Travel	11,905	9,630	9,000	630
Vehicles	31,411	5,295	5,400	(105)
Contracted Services	30,645	37,015	56,300	(19,285)
Publications	661	617	350	267
Appropriations	75,000	50,000	50,000	-
Administrative	5,017	7,818	7,850	(32)
New Equipment	478	15,566	3,750	11,816
Reserve for Contingency	196	100	56,700	(56,600)
Facility	14,921	16,084	115,400	(99,316)
COOP Programs	-	36	-	36
Foundation Expenses	214	476	580	(104)
Total Expenditures	<u>496,165</u>	<u>489,927</u>	<u>636,180</u>	<u>(146,253)</u>
Cash Receipts Over (Under) Expenditures	75,235	3,354		
Unencumbered Cash - Beginning	<u>70,174</u>	<u>145,409</u>		
Unencumbered Cash - Ending	\$ <u>145,409</u>	<u>148,763</u>		